

Office of Legislative Auditor

Department of Economic Development Business Services and Cluster Services Programs



January 2003

Audit Control # 03200523

Louisiana Revised Statute (R.S.) 39:87.3 requires the legislative auditor to provide an assessment of those agencies that are deficient in their capacity to execute the requirements relative to the production of performance progress reports to the Joint Legislative Committee on the Budget. This report gives the results of our examination of the performance data reported for the Business Services and Cluster Services programs within the Department of Economic Development (DED) for fiscal year 2002. The significant findings included in this report are as follows:

- The performance indicators for these two programs are valid.
- There are 30 performance indicators for the two programs. The results of our test of reliability of these indicators are as follows:
 - We found the values reliable for six performance indicators.
 - For 12 indicators, management controls are not sufficiently adequate to offer assurance that reliable data are used to compile the indicators' values.
 - For three performance indicators, DED did not furnish us sufficient source documentation to make a determination of reliability.
 - For nine indicators, DED relied on reports from Louisiana State University (LSU) to compile the values of these indicators. We did not evaluate LSU's management controls over these data.

Sincerely,

Grover C. Austin, CPA
First Assistant Legislative Auditor

Background

The mission of the **Business Services Program** within DED is to implement strategies that will contribute to building a higher value-added economy by encouraging technological growth and maximizing opportunities presented by technological

change through collaboration and cooperation.

The mission of the **Cluster Services Program** is to position Louisiana to compete effectively in a globally competitive marketplace by developing economic growth in fifteen clusters that are organized into nine groups as follows:

- Advanced Materials
- Agriculture, Forest and Food Products and Technology
- Durable Goods Manufacturing
- Entertainment
- Information Technology
- Logistics/Transportation
- Medical/Biomedical/Biotechnology/Health Care
- Oil and Gas and Petrochemical/Refining
- Environmental Technology

and objectives of the program and whether it can be linked to a major function of the program.

Exhibit 1 shows the amounts expended for fiscal year 2002 and the number of filled positions as of June 30, 2002, for each program.

Validity

Are the performance indicators valid?

We determined that all performance indicators for both the Business Services and Cluster Services programs are valid. The validity of a performance indicator is determined by whether it is suitable for its intended use. Factors we used to gauge the validity of a performance indicator include whether it is relevant to the missions, goals,

Exhibit 1 Expenditure and Position Information Fiscal Year 2002		
Program	Expenditures	Positions
Business Services	\$35,018,417	22
Cluster Services	\$1,854,815	16
Note: The number of positions is as of June 30, 2002. Source: Prepared by legislative auditor's staff using data obtained from DED.		

Exhibit 2 below and on page 3 shows the objectives and performance indicators for the Business Services Program.

Exhibit 2 Department of Economic Development - Business Services Program Objectives and Performance Indicators Fiscal Year 2002			
Objective	Performance Indicator	Target	Value Reported
1. Through the Business Retention and Assistance activity, to provide timely and accurate information to assist 100 companies in marketing products and services internationally by FY 2002	<ul style="list-style-type: none"> • Number of Louisiana companies assisted in exporting • Number of trade opportunities developed 	500 1,000	340 1,635
2. Through the Local Partners activity, to effectively engage in 256 collaborative initiatives and to engage in 48 collaborations/interactions on business recruitment or expansion projects by FY 2002	<ul style="list-style-type: none"> • Number of projects involving local development officials • Number of collaborations/interactions on projects 	325 100	326** 104**
See Notes on next page.**			

Exhibit 2 (Continued)
Department of Economic Development - Business Services Program
Objectives and Performance Indicators
Fiscal Year 2002

Objective	Performance Indicator	Target	Value Reported
3. Through the Small and Emerging Business Development (SEBD) initiative, to provide resources for management and technical assistance to certify 114 small and emerging Louisiana businesses by FY 2002	• Number of small businesses certified	114	123*
	• Number of certified small and emerging businesses provided specific assistance	117	159*
	• Number of applications for certification generated	125	124**
	• Number of certified small and emerging businesses monitored	64	65*
4. Through the Small Business Bonding (SBB) initiative, to assist 9 Louisiana small and emerging businesses in receiving bond guarantees by FY 2002	• Number of bond guarantees provided	3	3*
	• Amount of bond guarantees provided	250,000	279,907*
5. Through the Small Business Development Centers (SBDC) to provide counseling assistance to 3,500 Louisiana businesses and to train 6,000 individuals and to assist 50 businesses through the Incubator Program by FY 2002	• Number of businesses assisted through counseling by SBDCs	4,400	4,297
	• Number of individuals trained through SBDCs	6,000	7,887
	• Number of emerging businesses assisted through LSU's statewide small business incubator program	75	77
	• Number of technology assistance requests processed through the Louisiana Technology Transfer Office (LTTO)	250	260
6. Through the Technology, Innovation, and Modernization (TIM) activity, to provide technical assistance and accurate information to at least 280 Louisiana businesses by FY 2002	• Number of technologies licensed by Louisiana companies from federal agencies through LTTO	5	5
	• Number of Small Business Innovative Research (SBIR) grants approved through LTTO	30	40
	• Number of startup companies assisted through the Louisiana Partnership for Technology and Innovation (LPTI) activity	25	25
	• Number of emerging or growing technology-based companies connected to seed or venture capital providers through LPTI	15	15
	• Number of Louisiana research universities assisted through LPTI	15	15
	• Interactions of TIM staff to develop collaborative partnerships	12	12*
	• Total number of requests answered annually	3,000	3,400
	• Number of requests from Louisiana and out of state businesses answered annually	600	529
7. Through the Communications and Policy and Research activity, support the state's economic development marketing activities by responding to 3,000 requests for economic development information by FY 2002			

Notes: Key performance indicators are shown in bold. An asterisk indicates we found that the reported value is reliable.

** DED could not furnish sufficient source documentation for us to determine the reliability of these values.

Source: Prepared by legislative auditor's staff using data obtained from the Louisiana Performance Accountability System (LaPAS).

Management Controls & Reliability

Do internal controls offer assurance that the values of the performance indicators are reliable?

We confirmed reliable values for only six of the 30 performance indicators. The values of the remaining 24 indicators are unreliable or we could not determine their reliability because of three main reasons summarized below.

Reasons that indicators are unreliable or why we could not determine reliability	Number of Indicators
Unreliable values because of inadequate management controls	12
DED did not furnish us sufficient source documentation	3
Values are derived from LSU reports that we did not evaluate	9
Total	24

Management controls include policies and procedures that management has implemented to ensure data are accurate. We reviewed controls over the input, processing, and review of the data used to compile the values of performance indicators for DED's two programs. Input controls concern how an agency identifies and collects the data that will be used to calculate the value of an indicator, such as procedures to ensure that data are entered consistently. Processing concerns how a performance indicator value is calculated from the collected data. Review controls concern an agency's managerial review of the value calculated and whether this calculated value is the value actually reported in LaPAS.

Business Services Program

We found that the values of four of the 22 performance indicators within the Business Services Program were unreliable because of inadequate management controls.

Two performance indicators relate to Objective 1 on page 2 and are as follows:

- *Number of Louisiana companies assisted in exporting*
- *Number of trade opportunities developed*

The values of these two performance indicators are unreliable because of compilation errors. For example, DED's internal source document reported the total number of companies assisted in exporting was 993. Because DED realized companies were double-counted, its internal auditor analyzed trade show data to obtain an estimated value of 340, which was reported in LaPAS. In reviewing the auditor's work, we found instances that double counting still existed and therefore found the value of 340 unreliable.

Two additional indicators with unreliable values relate to Objective 7 on page 3 and are as follows:

- *Total number of requests answered annually*
- *Number of requests from Louisiana and out of state businesses answered annually*

For the 3rd Quarter of fiscal year 2002, DED furnished us documentation that 258 requests were answered, and 73 requests from businesses were answered. In LaPAS, DED reported that 1,011 requests were answered and 148 requests from businesses were answered.

Finally, to prepare the values of nine performance indicators in the Business Services Program, DED relies on reports generated from a subcontract with LSU. We did not evaluate LSU's management controls over this data. These nine performance indicators relate to the Business Services Program, Objectives 5 and 6, shown in Exhibit 2 on page 3.

Exhibit 3 below shows the objectives and performance indicators for the Cluster Services Program.

Exhibit 3 Department of Economic Development - Cluster Services Program Objectives and Performance Indicators Fiscal Year 2002			
Objective	Performance Indicator	Target	Value Reported
1. Through the Cluster Services Program, to build economic development partnerships around target industries by engaging in 54 collaborative activities with target industry entities by FY 2002	• Number of organizations/networking opportunities launched in target industry clusters	18	38
	• Number of collaborations/interactions initiated	54	155
2. Through the Cluster Services Program, to create 2,500 jobs in target industries by facilitating the location from out of the state, or the expansion within the state, of 20 companies in target industries by FY 2002	• Number of leads for new locations/expansions generated	200	299
	• Number of companies in targeted clusters located/expanded	20	52
	• Number of jobs created in target industries	2,500	1,571
	• Investment generated (in millions)	\$400	\$817
3. Through the Cluster Services Program, to assist in the retention or addition of 1,868 jobs in target industries by facilitating the retention or expansion of 40 Louisiana companies in target industries by FY 2002	• Number of Louisiana companies retained or expanded	25	32
	• Number of jobs retained or added in target industries	1,868	1,200
Notes: Key performance indicators are shown in bold. An asterisk indicates we found that the reported value is reliable. Source: Prepared by legislative auditor's staff using data obtained from LaPAS.			

Cluster Services Program

We found that none of the values for the eight performance indicators in the Cluster Services Program are reliable. For fiscal year 2002, DED combined performance data from each of the nine cluster groups to report a total for each performance indicator.

Two indicators with unreliable values relate to Objective 1 on page 5.

- *Number of organizations/networking opportunities launched in target industry clusters*
- *Number of collaborations/interactions initiated*

DED staff used electronic or manual methods to track performance data for the number of organizations/networking opportunities launched in target industry clusters and the number of collaborations/interactions initiated. We found that there were no management controls to ensure that all opportunities or collaborations/interactions were entered on their calendars. In addition, DED officials disagreed as to what the difference was between a networking opportunity and a collaboration. As a result, DED has no process to classify properly into the two categories when accumulating performance data. We attempted to reconcile DED's source data containing daily calendar entries to the values DED reported in LaPAS. Because DED staff did not categorize their entries by networking opportunity or interaction/collaboration, we could not reconcile the source data with LaPAS. Therefore, we found the values of these performance indicators to be unreliable.

For six other performance indicators related to Objectives 2 and 3 on page 5, we found that the data used to compile the values of the indicators are not reliable. These six indicators are as follows:

- *Number of leads for new locations/expansions generated*
- *Number of companies in targeted clusters located/expanded*
- *Number of jobs created in target industries*
- *Investment generated*
- *Number of Louisiana companies retained or expanded*
- *Number of jobs retained or added in target industries*

To compile values for these six indicators, DED's major source of data are the Advanced Notification forms. This form is the first form filled out by a business that is interested in receiving a tax incentive from the state. This form is a very poor measurement tool for compiling performance data for several reasons. First, numbers contained on Advanced Notifications are just estimates. The form indicates what companies plan to do, not what has actually occurred. Second, a DED official stated that a number of companies that invest, expand, or generate new jobs in the state do not fill out an Advanced Notification form. Third, data compiled from these forms can be used by more than one of the nine cluster groups; therefore, the same information from an Advanced Notification form can be "double-counted" by two or more cluster groups. DED officials confirmed that double-counting can

occur. Finally, not all businesses that fill out an Advanced Notification form actually invest or create jobs. Therefore, the source data derived from Advanced Notification forms, when compiled, do not result in accurate and reliable measures of values for these six performance indicators.

Other Matters

Three performance indicators had insufficient documentation. We found three instances in the Business Services Program where the reliability of values of performance indicators could not be determined because DED did not furnish sufficient documentation for us to review the compilation of the performance indicator values. These indicators relate to Objective 2 on page 2 and Objective 3 on page 3 and are as follows:

- *Number of projects involving local development officials*
- *Number of collaborations/interactions on projects*
- *Number of applications for certification generated*

Need more information?

Contact Office of Legislative Auditor at (225) 339-3800.
A copy of this report is available on our web site at www.la.state.la.us.

This document is produced by the Louisiana Legislative Auditor, State of Louisiana, Post Office Box 94397, Baton Rouge, Louisiana 70804-9397 in accordance with Louisiana Revised Statute 24:513. Eighty copies of this public document were produced at an approximate cost of \$91.20. This material was produced in accordance with the standards for state agencies established pursuant to R.S. 43:31.
